STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois, Petitioner Rate MAP-P Modernization Action Plan-Pricing Annual Update Filing	)))))))	ICC Docket No. 15-0305

CORRECTED REPLY BRIEF OF

THE PEOPLE OF THE STATE OF ILLINOIS

PEOPLE OF THE STATE OF ILLINOIS
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The People of the State of Illinois, by and through Lisa Madigan, Attorney General of the State of Illinois ("AG" or "the People"), hereby file their Reply Brief in the above-captioned Illinois Commerce Commission ("Commission" or "ICC") proceeding, pursuant to Section 200.800 of the Commission's Rules, 83 Ill. Admin. Code § 200.800, and the schedule set by the Administrative Law Judges.

I. INTRODUCTION

Ameren Illinois Company ("AIC", "Ameren" or "the Company") has the burden of proof under both Section 16-108.5(d)(3) and 9-201(c) of the Act to establish the justness and reasonablesess of its proposed rates. 220 ILCS 5/16-108.5(d)(3); 220 ILCS 5/9-201(c). Costs that are unnecessary to the provision of service, or that the utility has not justified in amount are not reasonable or prudent. *Commonwealth Edison Co. v. Illinois Commerce Commission*, 405 Ill.App.3d 389, 398 (2010).

As discussed in the AG Initial Brief and below, Ameren failed to justify its proposed inclusion in rates of certain cash working capital adjustments and advertising expense. The Commission should adopt the AG-proposed adjustments to these rate base and expense categories, which are supported by substantial evidence, as discussed below.

A. Overview

B. Legal Standard

II. RATE BASE

A. Uncontested and Resolved Issues

1. Asset Retirement Obligations

B. Contested Issues

1. Cash Working Capital

a. Electric Distribution Tax

As noted in the AG Initial Brief, a critical point of dispute between Ameren and several parties, namely Staff, AG and IIEC witnesses, was Ameren consultant Joseph Weiss's modified treatment in the lead-lag study used to determine CWC requirements of the Company's payments of the EDT, purportedly to recognize prior year's credit memoranda issued by the Illinois Department of Revenue (IDOR). Rather than follow the Commission-approved calculation of the calculated EDT payment lead day value used in prior Ameren formula rate filings, Mr. Weiss incorporated a calculated EDT payment lead day value that triggered a swing from a positive 30.13 value in the previous study to a negative 49.17 day value in the current study. Yet, the Company pointed to no change in circumstances to justify this radical change in lead days considering that the credit memoranda issuances from the Illinois Department of Revenue have consistently been issued to Ameren for many years, based upon statutory limitations placed upon the total amount of EDT that can be retained by the State.. AG Ex. 1.0 at 36:874-879; AG Ex. 1.1. In fact, as AG witness Brosch testified, the Company has provided no evidence that shareholders, rather than ratepayers, have provided the EDT cash that was initially over-collected by the State, and later returned via subsequent credit memo. AG Ex. 1.0 at 37:880-884.

i. Ameren's Description of EDT Quarterly Payment Activity and the Receipt of IDOR Credit Memoranda Do Not Justify Mr. Weiss's Unorthodox EDT Payment Lead Day Value.

In its Initial Brief, the Company devotes several pages to a discussion of EDT quarterly payment activity and its receipt of IDOR credit memoranda. Ameren IB at 6-9. The Company argues that it is appropriate to include both the dollar amounts and the timing of the credits and true-up payments in determining AIC's cash working capital requirement because it has impacts on the Company's cash flows. *Id.* at 7. Ameren stresses that it is "undisputed" that (1) the payment of the EDT impacts the Company's cash flows; (2) that the ET credit memoranda impacted AIC's cash flows in 2014; and (3) the date received, amount credited and period covered by the EDT credit memoranda. *Id.* at 9. In fact, while the Company did pay EDT on a quarterly basis and did receive a $6.7 million credit memorandum in 2014, it in fact *is disputed* that the credit memoranda amount received in 2014 impacted the Company's CWC requirements as assumed by Mr. Weiss.

As AG witness Michael Brosch notes, these are superficial arguments that do not respond to the issue raised by Mr. Brosch, IIEC witness Gorman and Staff witness Hathhorn: Mr. Weiss's calculated EDT payment lead value fails to accurately reflect how and when EDT credit memoranda are reflected in customer rates and, hence, how Company cash flows are impacted. AG Ex. 3.0 at 33:701-702. The Company already admitted that its discussion of statutory tax payment installment dates and receipt of credit amounts in Mr. Weiss's Rebuttal Testimony does not address when customers are charged for EDT amounts that are later returned as credit memoranda – a critical factor in evaluating the impact of the credit memoranda on Ameren's cash flows. AG Ex. 3.0 at 33:703-708; AG Ex. 3.6. Repeating in its Brief what the Company characterizes as "undisputed facts" or asserting that Mr. Weiss's expense lead proposal, "is the only proposal in this case that accurately reflects all of these undisputed facts"[1] does not change

[1] Ameren IB at 9.

that evidentiary omission. The claim is nothing more than hollow rhetoric, given the reality that IEDT credit memoranda have a delayed financial impact upon both Ameren and its ratepayers.

Ameren next attempt at muddying the CWC waters is to include a discussion and table that lists 2008-2014 IDOR credit memoranda amounts, issuance dates and the liability period reflected in the credit memoranda. Ameren IB at 10. Ameren argues that "the magnitude of the difference in the expense lead is directly correlated to the magnitude of the actual impact thee credit memoranda have on AIC's cash working capital requirement." *Id.* The Company writes that not reflecting "the impact of something – like the credit memoranda – that is *known* to have a large impact on cash flows" is unreasonable. *Id.* at 10-11.

These assertions likewise miss the required evidentiary mark. AG Ex. 1.11, consisting of certain AIC discovery responses attached to Mr. Brosch's testimony, provides the details concerning this process and the history of credit memoranda. When specifically asked, for example, "[f]or what reasons …Mr. Weiss concluded that the 'credit memo received in 2014 for the 2012 tax year' should be 'included in the (expense lead time) calculation" of a negative 49.17 days, the Company responded:

> A lead-lag study is intended to assess the timing of the Company's cash flows. The Electric Distribution Tax is one of the components of the Company's lead-lag studies that have been reviewed and approved by the Commission in Ameren Illinois' prior rate proceedings. The cash flow associated with the Electric Distribution Tax is affected by both the outflow of payments and the receipt of credit memos from the Illinois Department of Revenue. As such, Mr. Weiss has appropriately reflected both the cash outflows and inflows associated with the Electric Distribution Tax in the lead-lag study.

AG Ex. 1.11 (Company Response to AG 3.04(e).[2] This response is akin to, and about as informative as, Ameren stating "Because" in response to the question posed. It describes no

[2] Note that the Company incorrectly labeled its response to AG 3.04(e) as "(c)".

justification for the negative 49.17 expense lead time value. It points to no impact on actual Ameren cash working capital needs. Most importantly, it fails to explain how or reconcile the fact that the Company receives revenues *each month* from ratepayers to cover EDT payments through the EDT tariff impacts CWC needs – a point highlighted repeatedly by Mr. Brosch in his Direct and Rebuttal testimonies. *See* AG Ex. 1.0 at 37:885-901; AG Ex. 3.0 at 32-33:685-708. The bottom line is that the Company has provided no evidence of any kind that shareholders, rather than ratepayers, have provided the EDT cash that was initially over-collected by the State, and later returned via subsequent credit memo. AG Ex. 1.0. at 37:880-884.

Again, as noted in the AG Initial Brief and in Mr. Brosch's Direct Testimony, Ameren collects EDT from its customers through its "Tax Additions" tariff, providing at Ill. C.C. No. 1, 4th Revised Sheet No. 41.001, provides for EDT recovery, "based on the Customer's electric use as measured in kilowatt-hours" it is entirely possible that Ameren customers, rather than the Company's shareholders, have advanced the EDT funds that were used to pay excessive EDT amounts that were later returned via credit memoranda to the utility. AG Ex. 1.0 at 37:902-905. *Absent a showing by the Company that EDT charges to customers through the Tax Additions tariff were reduced in anticipation of future credit memos from the State*, there is no basis to conclude that the Company has experienced any additional Cash Working Capital investment for the delayed credit memos from the State. *Id.* at 37-38:906-910.

Ameren also asserts that "the magnitude of the difference in the expense lead is directly correlated to the magnitude of the actual impact the credit memoranda have on AIC's cash working capital requirement." Ameren IB at 10. To that statement, the People respond, "Exactly how?" The Company's responses to repeated discovery on this point, highlighted in

AG Ex. 1.11 and discussed above, and Rebuttal and Surrebuttal Testimony never connected those evidentiary dots. Moreover, the notion that the $6.7 million credit memo received in 2014 suddenly justified the radical shift in the calculation of the expense lead that AIC witness Weiss inserted in this year's lead-lag study is contradicted by the fact that the Company received a comparable $6.2 million credit memo in 2013 (Ameren Ex. 16.0 at 9) that was *not* reflected in the Ameren 2014 formula rate update CWC lead-lag study. Ameren never reconciles this fact.

ii. Ameren Never Proved It Reflected the Anticipated Receipt of IDOR Credit Memoranda in its Assessment of EDT Revenue Collection From Ratepayers.

Ameren's next hollow argument is its assertion that it *proved* that the EDT charges assessed to AIC customers were reduced to reflect IDOR credit memoranda received that year, thereby justifying the calculated EDT payment lead day value proposed in this case. Ameren IB at 12. The Company claims that "in any given rate period, AIC's customers are receiving the benefit of prior credit memoranda." *Id.* The Company adds that if there is any difference between the credit memoranda incorporated into rates and the credit memoranda issued during the year, that difference is returned to customers or the Company via the formula rate reconciliation provision. *Id.* at 12.

But this argument only perpetuates the shell game that is its purported justification for a radically altered EDT payment lead day calculation. AG witness Brosch pointed out, again, that this fact fails to prove that shareholders were in some way floating needed CWC to the Company to account for EDT quarterly payments to the IDOR or, more importantly, whether the negative 49.17 expense lead time value proposed by Mr. Weiss is representative of the unproven infusion of cash. Ameren failed to discuss when and how EDT credits are reconciled through the Company's Tax Additions tariff – thus ignoring the critical element of CWC lead/lag calculations: the timing of expenses and revenues and their impact on cash flows. Instead, the Company simply recites the statutory installment dates associated with the Company's EDT payments and compares these dates to the revenue lag. *See* AIC Ex. 12.0 at 8-9:143-146; AG Ex. 3.0 at 32:695-700.

As Mr. Brosch observed, this is a superficial discussion that does not answer the question AG witness Brosch raised about how and when EDT credit memoranda are flowed back to ratepayers – a critical question in determining which entity – customers or shareholders – are satisfying Ameren's CWC needs. In fact, in response to data request AG 6.03, the Company admitted that Mr. Weiss's response on this point in Rebuttal Testimony does not address when customers are charged for EDT amounts that are later returned as credit memoranda, with reference is made to Mr. Weiss's rebuttal which is said to "respond to the concerns raised by Mr. Brosch." (*See* AG Ex. 3.6, which is a copy of this AIC data request response.)

Mr. Brosch, on the other hand *did* show that the EDT credits of concern to Mr. Weiss are flowed through the ratemaking process on a delayed basis, long after the tax liability period to which each credit applies. This is highlighted in the table that appears on page 7 of Mr. Weiss's Rebuttal Testimony, in the $6,709,666 credit that appears as the last entry in the table. *See* AIC Ex. 16.0 at 9. Under AIC's lead-lag study, because this EDT credit that was issued to AIC in 2014 pertains to a "Liability Period" that is calendar year 2013, Mr. Weiss' treats this transaction as a prepaid expense that requires shareholders to pay cash well in advance of the lead lag study period. But, as noted in the AG Initial Brief, *what is missing from Mr. Weiss' analysis is the fact that this same credit is passed to ratepayers on a delayed basis, which fully offsets Ameren's advance payment of EDT that is later credited back to the Company*. AG Ex. 3.0 at 34:722-731. In AIC's response to data request AG 6.04, the Company indicated that this $6.7 million credit memorandum pertaining to the 2013 EDT tax year was not recorded by AIC until 2014, the year it was received. Then, because the 2014 FERC Form 1 recorded data is not considered in formula ratemaking until 2015, the amounts of EDT collected from customers is not reduced for the $6.7 million EDT credit memorandum until rates are changed in 2016, *a full three years after the EDT tax year to which the credit relates. See* AG Ex. 3.7.

Ameren next points out that the Commission previously rejected Ameren's proposal to conduct reconciliations of the EDT in the Tax Additions Tariff in Docket No. 09-0306. AIC IB at 13. Ameren then argues that its current practice of providing reconciliations of credit memoranda on a delayed basis complies with that Order, and that the Company "should not be penalized for that compliance by a reduction to its cash working capital." *Id.* This is yet another hollow argument, as no party has asserted any non-compliance by Ameren regarding the Tax Additions Tariff. Mr. Brosch's and Ms. Hathhorn's rejection of Mr. Weiss's drastically revised calculation of the expense lead inserted in this year's lead-lag study is no penalty. Their testimony and recommendations simply correct an ill-conceived assumption about EDT expense and revenue flows that lacks evidentiary justification and completely ignores the timing of customer participation in EDT credit memoranda.

Ameren next complains that Mr. Brosch's focus on recognition in customer rates of IDOR credit memoranda is "not relevant to the analysis of cash working capital, which is focused on cash inflows and outflows at the Company. Ameren IB at 13. This argument, too, misses the mark. As noted by Mr. Brosch, the Company's delayed recognition of EDT credits through Ameren's Tax Additions Tariff means that the Company's lead lag study revenue lag calculations do not recognize that Ameren is collecting EDT revenue from customers using accounting procedures that flow EDT credit memoranda to customers on a delayed basis. To be consistent, the Company's lead lag study treatment of EDT cash flows should also not recognize prior year credit memoranda, and should not treat such credits as prepaid taxes, as proposed by Mr. Weiss for the first time in this docket. AG Ex. 3.0 at 34:740-748.

iii. AIC's Proposed Alternative Adjustment to the Lead- Lag Study Should Also Be Rejected.

Ameren next offers an alternative adjustment to Mr. Weiss's radical expense lead proposal: a calculation that begins the lead day calculation at the midpoint of the year in which AIC receives the credit memoranda from the IDOR. AIC IB at 15.

But this proposal, too, is flawed. AIC's revised calculation, which reduces the assumed prepayment value assigned to EDT credit memo line items in Mr. Weiss' study by one year, so as to consider the year the credit memo amount was recorded in the FERC Form 1 (rather than attributing the credits to the prior "liability period" used by Mr. Weiss), continues to ignore the fact that ratepayers do not benefit from the credit memoranda until *years after* they are recorded in the FERC Form 1 and then flow through the formula ratemaking process. *See* AG Ex. 3.7, page 2. It also fails to explain why the receipt of IDOR credit memoranda, that according to Mr. Stafford's own testimony, date back to at least 2008 (both before and after the initiation of formula rates), should suddenly justify the sudden inclusion of these credit memos in the Company's calculation of cash flows in this case. Tr. at 36-38; AIC Ex. 16.0 at 9:175-176. Like Mr. Weiss's flawed calculation, Mr. Stafford's alternative 0.85 day EDT lead calculation continues to treat EDT credit memos as a prepayment of EDT tax, with no corresponding accounting for the delayed return of such EDT credits to ratepayers through the formula ratemaking process.

The Company's attempt to diminish Mr. Brosch's observation that the Company's lead lag study revenue lag calculations do not recognize that Ameren is collecting EDT revenue from customers using accounting procedures that flow EDT credit memoranda to customers on a delayed basis, and his adjustment, which removes AIC's payment "lead" treatment of such credits as prepaid taxes, should be dismissed. Ameren's proposed EDT tax expense results in a completely unjustified, random increase in the Company's requested revenue requirement of $5.9 million for the 2014 test year. Tr. at 39. It should be rejected.

iv. The Commission Should Adopt Staff Witness Hathhorn's Proposed EDT Expense Lead Figure, Which AG Witness Brosch Accepted in His Rebuttal Testimony.

As noted in the AG Initial Brief, Staff witness Hathhorn likewise challenged the Company's proposed new treatment of EDT credit memoranda. Ms. Hathhorn addresses the EDT payment lead issue with a calculation that changes two inputs from the Company -- the removal of the 2013 tax true up payment and removal of the 2012 credit memo amount. This results in the EDT CWC factor changing from a negative expense lead of (49.17) to a positive lead of 29.38. She noted that the Company has not demonstrated that inclusion of these two items is reasonable, and that the Company agrees that its previous calculation of the EDT expense lead did not include true up payments and amounts from credit memos, although credit memos also occurred during the timeframe of the last lead study. Finally, she noted that the Company admitted that its prior calculation in prior formula rate update cases was not in error. Staff Ex. 2.0 at 8:-5:84-95.

While Mr. Brosch proposed in his Direct Testimony using a revised EDT payment lead of 31.51 days, he did not object to use of Staff witness Ms. Hathhorn's slightly lower proposed 29.38 EDT lead day value which, like Mr. Brosch's original adjustment, removes the 2012 IDOR credit memo amount. AG Ex. 3.0 at 36:774-781. This revised lead day value is shown within AG Exhibit 3.1, pages 3 and 4, at lines 18 and 48. Mr. Brosch quantified the value of the EDT issue as impacting the revenue requirement across both the filing year and the reconciliation year as a combined $2.2 million, including the effects of other AG-proposed adjustments, after adopting Ms. Hathhorn's proposed EDT lead day value, as shown in AG Ex. 3.1.

The Commission should adopt the Staff and AG-proposed EDT payment lead day value in determining Ameren's revenue requirement, in order to ensure that Ameren customer rates are not inflated to account for an alleged new CWC need associated with prior period EDT credit memoranda that the Company failed to show exists in fact.

b. Collection Lag

As noted in the AG Initial Brief, the proposed revenue collection lag in AIC's new lead-lag study, which represents the difference in time between when customers receive their bills for electric service and when the Company receives payment for service, incorporates an additional nearly 6.5 days or about 21% longer collection lag than in ICC Docket No. 12-0001. AG Ex. 1.0 at 27:647-648. This significant change in the collection lag incorporated in the Company's filing is triggered by:

- Account receivables associated with deferred payment arrangements ("DPAs") pursuant to part 280.120 of the Illinois Administrative Code are now isolated for separate study. According to Mr. Weiss, "[t]he data has not historically been available in a manner that could be used in past CWC analyses."[3]

- An additional aging bucket for receivables more than 120 days old has been added, where the Company's prior study did not segregate receivables above 90 days in age. This change adds about 1.4 days to the resulting revenue collection lag.

- Account receivables associated with the Company's budget billing offerings are now isolated for separate study.

AG Ex. 1.0 at 28:657-675 and AG Ex. 1.9. The impact of revenue collection lag calculations on the Company's revenue requirement is significant. For the reconciliation year, approximately

[3] Ameren Ex. 8.0 at 8:168.

$511 million of revenues are subjected to the Company's proposed revenue lag, causing each added day of revenue lag to increase rate base by about $1.4 million. AG Ex. 1.0 at 27:651-653.

AG witness Brosch's testified that the period studied by Mr. Weiss provides excessive weight to several months prior to changes made in the Company's DPA program. He noted that the Weiss analysis includes a 12-month period for study, even though Ameren's DPA program was changed, resulting in more of the DPAs established with a shorter duration as a result of a change in the Commission's Part 280 rules that the Company put into effect in June of 2014. AG Ex. 1.0 at 29:680-691; AG Exhibit 1.10. In light of this actual change, Mr. Brosch modified the Company's treatment of DPAs to remove the effect of longer-term DPAs in the months prior to recent program changes that were included by Mr. Weiss. AG Ex. 1.0 at 29:692-699. Because the changes to the DPA period offered Ameren customers were implemented in June of 2014, Mr. Brosch updated Mr. Weiss's study to use the monthly data provided in response to AG discovery for the period July 2014 through May of 2015 to ensure that that the estimated collection lags reflect post June, 2014 DPA policy changes. *Id.* The Company accepted this proposed change to the lead-lag study. AIC Brief at 17.

The only remaining contested issue related to AIC's calculation of the revenue collection lag centers around the Company's decision to divide accounts receivable into 30-day aging categories and then apply an unsupported assumption that customers pay, on average, at the midpoint in each of these 30-day categories. AG witness Brosch presented overwhelming evidence that this assumption is not consistent with the Company's own bill payment data. In light of the aging distribution of the receivables aging categories employed by Ameren and the Company's own study of customer remittance timing, he proposes a modified front-weighting for each receivables aging category beyond the initial 0-30 day category, similar to Ameren's asserted conservative assumption that that Company used for the very old 120-and-over category, where the Company assigned a 120-day front weighted collection date. Specifically, after reviewing the accounts receivable data without forcing it into 30-day aging categories, Mr. Brosch recommended that revenue collection be assumed to occur nearer the front of each of the 30-60 day, 60-90 day and 90-120 day categories, by assigning a *middle of the front half weighting* to establish the assumed collection point in each of these categories,[4] resulting in a 37.5 day collection date to the 30-60 day category, a 67.5 day collection date to the 60-90 day category of receivables and a 97.5 day value to the 90-120 day category. AG Ex. 1.0 at 32:746-755.

As discussed below, Mr. Brosch's recommended approach is conservative and better supported than Ameren's random midpoint calculation and should be adopted by the Commission.

i. Ameren's Random Assumption That Bill Payments Occur in the Middle of the Month in Each 30-Day Accounts Receivable Category Used in the Lead-Lag Is Not Supported By Substantial Evidence.

Ameren argues that Mr. Brosch's "middle of the front half" proposal for application to certain accounts receivable buckets beginning with the 30-60 day category is unreasonable, referencing the customer remittance data submitted by Ameren witness Weiss "showing that customers typically remit payment at approximately the midpoint of each month, rather than the middle of the front half of the month". AIC IB at 23. The Company takes issue with Mr. Brosch's analysis of the data, and states "it is not clear to AIC exactly how the AG would propose to calculate the collection lag."

[4] Each aging category is 30 days in duration. If half of all revenues are assumed to be collected only 25 percent of the days from the beginning of the category, the result would be collection 7.5 days into the category (30 days * 25%).

But Ameren's asserted confusion is inexplicable. The AG has made clear in this case (and prior AIC rate cases) that what is needed is a careful and easily completed analysis of accounts receivable that using the entire population of data to calculate the overall revenue collection lag. Ameren's forcing of actual customer remittance data into Mr. Weiss' selected aging buckets distorts the overall collection lag result, which is the only meaningful result to be procured from the analysis of actual customer payment data, according to Mr. Brosch. AG Ex. 3.0 at 27:604-613.

Ameren next argues that Mr. Brosch's assumption that customers whose bills are delinquent beyond 30 days are likely to make payment nearer the front of each of the 30-60 day, 60-90 day and 90-120 day categories is not supported by actual remittance data, and that new evidence submitted in Mr. Weiss's Rebuttal Testimony supports the Company's assumed midpoint payment receipt date in each of the 30-day aging categories. AIC IB at 23-24.

These arguments are incorrect, however. In fact, Mr. Brosch *did* review the new analysis discussed by Mr. Weiss in the Rebuttal stage of the case, but without forcing that data into aging categories. From his review, Mr. Brosch concluded that, without forcing the data into Ameren analysis buckets, the actual data would support a revenue collection alg of 33.73 days, which is 1.7 days shorter than the 35.45 day revenue collection lag that is proposed by the AG and 2.2 days shorter than Mr. Weiss' modified position on rebuttal. AG Exhibit 3.0 at 29:627-634.

In contrast, the evidence shows that, in fact, Mr. Weiss's more restrictive analysis of the timing of actual customer billings and remittances does not produce a reasonable estimate of the interval between billing and revenue collection. AG Exhibit 3.5, which consists of a series of AIC responses to AG data requests related to the new study, reveal a number of problems with Mr. Weiss's proposed new study, as highlighted in the AG's Initial Brief, including:

- Payments received in an amount greater than the customer's outstanding account balance were not treated as a prepayment or properly assigned a negative collection lag value, but were instead assigned a collection lag equal to zero. The zero lag day transactions were not included in Mr. Weiss' analysis. Ignoring these prepaid accounts excludes over 400,000 remittance transactions in Mr. Weiss' study period and thereby overstates the revenue collection lag.

- The analyzed population of data included all forms of customers' payments including Deferred Payment Arrangements and Budget Billings, which are not indicative of normal customer remittance patterns. Mr. Weiss separately studied the revenue collection lag for these arrangements in his direct testimony, because of their unique characteristics, but did not remove these transactions from the payment transaction data used in his new analysis.

- The convention used to "match" specific customer payments to specific bills assumed that each customer payment should be attributed to the oldest outstanding billed balance for prior months' service. Since dollar amounts are not used in the analysis and Deferred Payment Arrangements are included, extremely long remittance lags can result for numerous partial payments by individual customers using this convention.

AG Ex. 3.0 at 26-27:576-597. These are significant flaws in the so-called new study that AIC claims support its inflated collection lag figure.

Most importantly, Mr. Weiss's decision to force the actual customer remittance data that he analyzed into the 1-30 day, 31-60 day, 61-90 day, 91-120 day and 120+ day Accounts Receivables aging groups employed in his collection lag analysis, rather than simply using the entire population of data to calculate the overall revenue collection lag, is a critical flaw, according to Mr. Brosch. AG Ex. 3.0 at 27-28:601-624. This mistake does not allow the data to reveal an overall collection lag result, which is the only meaningful result to be procured from the analysis of actual customer payment data, according to Mr. Brosch. *Id.* Notably, the remittance transactions in Mr. Weiss' study are concentrated around the 21st day, the date when residential customer payments are due – not in the midpoint of the various 30-day accounts receivable aging categories selected by Ameren. *See* AG Initial Brief at 22-23. Mr. Weiss's approach is focused on segmented variances within his 30-day aging buckets – not overall remittance results. AG Ex. 3.0 at 28:620-624.

The facts are that neither Ameren witness Weiss's initial or "new" study of AIC accounts receivable and customer remittance data, respectively, supports the Company's proposed application of an assumed midpoint customer remittance input into the aging bucket categories used by AIC to develop a revenue collection lag estimate. As noted in the AG Initial Brief, more than 86 percent of the aged accounts receivables that are included within Mr. Weiss' analysis are less than 30 days old – a fact that casts AIC's 30-day midpoint methodology into serious doubt of its accuracy.

Getting the collection lag value right is important for ratemaking purposes because the revenue lag has a significant effect on CWC and overall revenue requirements. Mr. Brosch confirmed that if the 15-day mid-point that Ameren has assumed for the 0-30 day aging category is inaccurate by only three days, the resulting overall revenue collection lag changes by more than two days, impacting rate base by about $3 million.[5] AG Ex. 1.0 at 31:735-739. Mr. Brosch pointed out that it is quite possible that customer accounts within the 0-30 day category remit payments, on average, at day 12 or at day 18, rather than at day 15 as assumed by Ameren. Without more detailed data and further analysis, the Commission cannot know whether the Company's arbitrarily selected mid-point assumption is valid.

ii. Mr. Brosch's Conservative Midpoint of the Front Half of the AIEmployed Aging Categories Should Be Adopted Until Ameren is Required by the Commission to Perform a Revenue Collection Lag Analysis Based on Actual Customer Remittance Data.

Ameren complains in its Brief that Mr. Brosch's proposed approach to estimating the revenue collection lag is not based on actual remittance data. AIC IB at 24. But that simply is not true. Mr. Brosch, as noted above, carefully reviewed the Company's new study of customer

5 The 0-30 day category of receivables represents about 73% of all receivables. With a 73% weighting, a 3-day change, as if collections occurred on average at day 12 or at day 18, would translate into about 2.2 days of overall collection lag impact. At $1.4 million per day, the resulting CWC impact exceeds $3 million in rate base. AG Ex. 1.0 at 31, footnote 31.

remittances and plotted the actual receipt of payments based on the *overall* distribution of remittance data – not AIC's forced 30-day remittance buckets. AG Ex. 3.0 at 27-28:601-624.

Mr. Brosch's proposed revision to the Company's unsupported mid-point collection date assumptions that assumes a somewhat front-weight for each receivables aging category beyond the initial 0-30 day category is more reasonable than Ameren's mid-point assumption because *the distribution of Ameren's receivables indicates the validity of a front-weighting of assumed collection dates*. Specifically:

- More than 86 percent of the aged accounts receivables that are included within Mr. Weiss' analysis are less than 30 days old, as noted above; and
- Similarly, the 30-60 day old category is more than twice the size of the 60-90 day category and the 60-90 day category is, in turn, larger than the 90-120 day old category.

AG Ex. 1.0 at 32:756-764.

Since the overall distribution of receivables is skewed heavily toward the early categories, Mr. Brosch's rationale for his front-end methodology for aging buckets beyond 30 days is reasonable and conservative. AG Ex. 1.0 at 32-33:758-766. He explained, too, that it is reasonable to assume that customers have a tendency to pay utility bills within due date, if possible, so as to avoid late payment charges included in the Company's tariffs and the risk of service interruption. Those tariffs make clear that if customers waited until the midpoint of Mr. Weiss's of each of his 30-60, 60-90, and 90-120 day receivables aging blocks to remit payment, those payments would be "past due" under the terms of the Company's tariffs, and subject to a late payment fee. A more reasonable assumption is that customers strive to pay and generally do pay their electric bills as closely as possible to due dates in order to minimize exposure to late payment charges, potential collection activity and utility service disconnection, which would tend to focus such payments closer to the front of each category. AG Ex. 1.0 at 33-35: 774-834.

For all of these reasons, Mr. Brosch's modifications to the Company's 30-day remittance bucket approach, which results in a revenue collection lag of 34.95 days, should be adopted by the Commission. The evidence shows that it is a conservative adjustment in light of the fact that some more than 86 percent of the aged accounts receivables that are included within Mr. Weiss' analysis are less than 30 days old and that it is still considerably shorter than the 30.67 days last approved by the Commission in Docket No. 12-0001. AG Ex. 1.0 at 35:839-849.

Moreover, as noted in the AG Initial Brief, given the significant impact on revenue requirements a few-day adjustment to the revenue collection lag creates as well as the large change in the revenue collection lag that is being considered in this docket, relative to the values approved in Docket No. 12-0001, the AG recommends that a limited-scope analysis of only the revenue collection lag portion of the Company's lead lag study be undertaken in the next AIC formula rate case proceeding. The Attorney General's office is willing to engage in a collaborative process with AIC personnel before the next filing is made, to ensure that useful data is efficiently gathered and analyzed, in an effort to accurately update the revenue lag day calculations in the next rate case.

Finally, the Company argues that "[t]here is an important distinction between customer remittance data and accounts receivable data" for establishing revenue collection lags, noting that remittance data includes only those customers who actually remit payment and not older past-due amounts and amounts within DPAs. AIC IB at 25. This point is a red herring, however. As noted previously, DPA revenue collections have been separately analyzed and Ameren has accepted the revised collection lag value applicable to these transactions. With respect to "older, past-due amounts" of receivables within the customer remittance data being analyzed, Ameren has not omitted remittances for very old past due accounts. The chart summarizing Mr. Weiss' study in his rebuttal reveals the inclusion of remittance transactions in every month for receivables 120+ days old. Ameren Exhibit 12.0(Rev) at 21:409-410.

The Commission should adopt Mr. Brosch's revised revenue collection figure which, as noted above, is supported by the Company's own customer remittance data. The People also urge the Commission to order that a workshop process, which would likely be short in length and quickly conducted[6], in which actual Ameren customer remittance data is extracted and analyzed for an updated 12-month period, using the data query and analysis tools that have already been developed by Ameren to support Mr. Weiss's rebuttal presentation of remittance data. Such workshop should take place before the Company's next formula rate update filing. This would ensure that the critically important revenue collection lag, which has a profound impact upon the CWC amounts included in rate base, is accurately quantified based upon actual customer remittance data, eliminating the dependence upon arbitrary and controversial mid-point remittance assumptions that are otherwise used for this purpose.

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[6] When asked In response to AG discovery to provide an estimate of the hours and cost that would be involved Mr. Weiss estimated that it would take the Company approximately 3 to 5 weeks to provide the raw customer remittance data. He added that an additional week would be required to his company to analyze the data, at a total cost of $14,500 plus undefined IT costs. *See* AG Cross Ex. 2 (AIC Revised Response to AG 8.02.)

C. Original Cost Determination

D. Recommended Rate Base

1. Filing Year

2. Reconciliation Year

III. OPERATING REVENUES AND EXPENSES

A. Uncontested and Resolved Issues

1. State Income Tax

2. Charitable Contributions

3. Advertising Expenses (but for 3.b.i.)

a. AIC Self Disallowances

b. Staff Adjustments

c. Undocumented Account 909 Expenses

4. Safety Awareness and Recognition Spending (but for 3.b.ii)

5. Outside Services

6. Industry Dues

7. Injuries and Damages

8. Rate Case Expense

B. Contested Issues

1. Advertising Expenses

a. Ameren's characterization of its advertising expense as recoverable is unsupported by the Act, Commission rules, and the evidence.

Ameren's Initial Brief represents that its mission to provide its captive customers with "safe and reliable energy services" "requires communications between the utility and consumers" and that not only safety, efficiency and conservation message costs are recoverable. Ameren's response to the Peoples' challenge to their advertising expense request as unrecoverable goodwill advertising argues that the costs of other types of goodwill advertising can also be recovered in rates if they are "in the best interest of the Consumer". AIC Reply Br. at 32, citing 220 ILCS 5/9-225(2), which states

> (2) In any general rate increase requested by any gas, electric, water, or sewer utility company under the provisions of this Act, the Commission shall not consider, for the purpose of determining any rate, charge or classification of costs, any direct or indirect expenditures for promotional, political, institutional or goodwill advertising, unless the Commission finds the advertising to be in the best interest of the Consumer or authorized as provided pursuant to subsection 3 of this Section.

220 ILCS 5/9-225(2) (emphasis added).

The Company further claims that costs associated with advertisements "intended to inform the customers about specific investments, programs, initiatives, benefits or opportunities" with respect to AIC's electric delivery service are recoverable. Ameren IB at 30. Ameren asserts that OAG witness Brosch's opposition to recovery for these expenses as purely goodwill "does not show that the primary design of the advertising is to promote the Company's image" and that "…even if it did, and there was an ancillary favorable impact on AIC's image, the messages still would be in the best interest of consumers." *Id.*

The Act's definition of goodwill advertising covers "any advertising either on a local or national basis designed primarily to bring the utility's name before the general public in such a way as to improve the image of the utility or to promote controversial issues for the utility or the industry." 220 ILCS 5/9-225(1)(d). Ameren argues that its costs associated with utility advertising informing customers of Ameren's delivery system investments are recoverable because they are in the customers' best interests, as per 9-225(2), but it also cites to the Commission rule that permits variations from the principle that goodwill advertising shall not be treated as a recoverable operating expense. Ameren asserts that Part 295.10(a) applies to its advertising expense requests because that rule permits recovery for goodwill advertising if the Commission concludes the advertising is necessary to protect consumers, to promote efficient use of the public utility system or to allow the public utility to compete effectively against non-regulated competitors. 83 Ill. Adm.Code 295.10(a).

None of those exceptions applies to the type of advertising expenses the People have challenged. Ameren itself admits the focus of its messages is to "educate and inform customers" on delivery system investments, initiatives, program, opportunities and benefits related to Ameren's delivery of electric service. Ameren IB at 33-34. None of the messages at issue in this proceeding qualify as necessary to any of the goals set forth in Part 295.10(a). Instead, they describe infrastructure investments and operational improvements that have already occurred or will soon take place. The absence of such messages does not impact the protection of customers or their use of public utility service, and as Ameren's delivery system has no competitors for the delivery of electric energy, such messages have absolutely nothing to do with enhancing competition.

It should also be noted that the categories of advertising for which recovery is permitted, as laid out in the exceptions in Section 9-225(3)(a)-(h), all involve the transmission of information that customers need to facilitate day-to-day consumption and help them understand the regulatory process. Those exceptions encourage energy conservation, comply with state or federal law, protect consumer safety, explain regulatory actions, or provide information that consumers need to communicate with the company for service, billing or employment purposes. In short, expenses under subsection (3) are recoverable if they are mandated by law or assist customers with normal consumption activities.

The Company cites as support for its opposition to the People's proposed disallowances for advertising expense the Commission's order in Docket No. 11-0721, a recent Commonwealth Edison formula rate case approving cost recovery for certain advertising expenses of Commonwealth Edison. Ameren asserts, based on that decision, that a party proposing to disallow cost recovery for goodwill advertising designed primarily to generate goodwill "…must show that 'the promotional aspect of the advertisement outweighs the message of the advertisement.'" *Id*., citing Order, May 29, 2012, ICC Docket No. 11-0721 at 102. Based on this finding, Ameren suggests that once a utility designates an advertising expense as recoverable goodwill, the burden lies with Staff or intervenors to demonstrate that those advertising expenses are promotional in nature.

Ameren's interpretation of the Commission's decision is wrong. The burden to demonstrate the reasonableness of a particular expense item is on the utility, not intervenors, as intervenors' participation in ratemaking proceedings is "purely fortuitous," as the Illinois Supreme Court has stated. *People ex rel. Hartigan v. Illinois Commerce Commission* (1987), 117 Ill.2d 120, 135. The *Hartigan* Court further deemed it an "impermissible practice" for the Commission to presume that a utility's quantification of an expense and request for cost recovery, and nothing more, shifts the burden to intervenors to demonstrate otherwise: "Requiring intervenors to establish unreasonableness is therefore no substitute for requiring proof of reasonableness." *Hartigan* at 135-36.

Nor does Ameren's interpretation of the Commission's approval of cost recovery for advertising expense in the 11-0721 order support its arguments. The Commission's decision in that case was founded on the premise that a utility should not be limited in its efforts to promote energy efficiency by the spending caps associated with the Act's energy efficiency mandates of Section 8-103. It reasoned that for non-specific energy efficiency promotion, recovery of advertising expenses was appropriate, pursuant to Section 9-225(3)(a):

> The Commission's reading of these two sections of the Act is that advertising costs clearly tied to promoting a specific ComEd energy efficiency program run pursuant to Section 8-103 of the Act should be recovered under Rider EDA (and built into a program's projected costs as part of the company's filing under Section 8-103(f)). Alternatively, more general energy efficiency and conservation-related advertising costs are most appropriate for recovery under Section 9-225(3)(a) as an operating expense. The Commission believes that 8-103 is not intended to subsume an electric utility's entire energy efficiency and conservation-related efforts, and that the existence of both Section 8-103 and Section 9-225(3)(a) contemplates efficiency and conservation-related spending above and beyond funds collected only pursuant to the utility's rider created to effectuate Section 8-103.

Order, Docket No. 11-0721 at 101-02.

Clearly the Commission's intention in allowing these advertising expenses was to bolster the company's statutory energy efficiency programs, in light of the subsection (3) exceptions.

Ameren's argument in this case misconstrues this reasoning. The company argues that the Commission's decision in the 11-0721 docket means that the costs of goodwill advertising are recoverable as long as the advertising at issue has some other purpose and is not "designed primarily" to improve the utility's public image. Ameren IB at 30, 32. The Company's position appears to be that that the "Other" category of recoverable costs, described in Section 9-225(3)(i) as anything not political, promotional, institutional or goodwill, is a blanket recovery provision for anything not specifically allowed in subsections (a) through (h). Ameren says that "an element of intent…must be established, before the expense can be excluded." AIC Reply Br. at 32. It then proceeds to describe the intent of much of the disputed advertising in this proceeding as "educational," a broad term that could be applied to just about any advertising providing any information at all, and concludes that various advertisements that "educate" its ratepayers must be compensated through rates because they have a purpose other than those for which recovery is prohibited.

But simply because the advertising may have a purpose other than those for which recovery is prohibited under Section 9-225(2) does not automatically qualify it for cost recovery as otherwise allowable under Section 9-225(3)(i). While Ameren cites the Act's allowance of cost recovery of those items which the Commission determines are "…in the best interest of the Consumer," it doesn't explain how that term should be defined, leaving the classification open to exploitation to include any advertising a utility may proclaim as "in customers' best interests."

b. Ameren has not demonstrated that costs of the Energy at Work television ads and Infrastructure Video Ads are recoverable in rates (Advertisement Examples No. 20.1, 21 and 54).

Costs associated with Ameren's Energy at Work television ads (Advertisement 20.1)[7] and infrastructure videos (Advertisement No. 21 and No. 54) should not be included in Ameren's delivery service rates because they do not qualify as exceptions to the prohibition on goodwill advertising as set forth in Section 9-225(2) and (3) of the Act or as an allowable discretionary variation to that prohibition as set forth in Part 295.10(a) of the Commission's rules. 220 ILCS 5/9-225(2) and (3)(a)-(i); 83 Ill.Adm.Code 295.10(a).

Ameren attempts to draw a distinction between advertising expenses that the Commission did not find recoverable in a previous rate case and the Energy at Work ad expenses for which it is now seeking recovery, citing the fact that the advertisements in

[7] The People mistakenly referred in their Initial Brief on page 31 to Advertisement No. 20 and No. 20.1. The correct references are to Advertisement No. 20.1 and No. 21.

question did not refer to "particular investments or types of benefits," but that the new advertising expenses were sufficiently specific to address the concerns the Commission raised about the earlier ads. Ameren IB at 36-37. But as the People explained in their Initial Brief, that distinction is irrelevant.

The message in Advertisement Example No. 20.1, whether or not it references specific investments, is not sufficiently different in nature from those for which the Commission disallowed cost recovery in Docket No. 14-0317. As AG witness Brosch pointed out, the content of this ad does not encourage customers to take "any specific action" that would remove them from the realm of promotional or goodwill advertising and place them in the Section 9-225(3) exceptions. Advertisement Example No. 21 and Advertisement Example No. 54, which include materials for two advertisements published in 2014 regarding the Intellirupter (outage detection technology) and the expansion of Ameren's substations are of a similar promotional nature.

None of these examples are necessary to protect consumers or promote efficiency or are they designed to enhance Ameren's ability to compete with non-regulated competitors, as Part 295.10(a) would allow. Nor do they qualify as consumer education with any other particular purpose. While Ameren states that the primary design of the Energy at Work ads is to educate customers on EIMA-related capital investments, Ameren IB at 37, the Company suggests no particular action customers might take after hearing about investment decisions already made. The consumer's role in absorbing this information is strictly passive. Expenses associated with Advertisements No. 20.1, 21 and 54 should not be included in Ameren's delivery rates.

c. The costs of Ameren's Facebook messages are not recoverable in rates.

Ameren states that the primary purpose of its Facebook message is to "engage with customers, resolve their issues and concerns, and develop compelling, interactive content" and that Facebook enables the Company "to engage in one-on-one, real-time conversations and share information with a network of customers." Ameren IB at 39-40.

The People have challenged expenses connected with Facebook messaging as goodwill advertising. As the People pointed out in their brief, there is no guarantee these postings will ever initiate a two-way dialogue with customers, and the posting of such messages are not necessary to facilitate normal consumption, no matter how they improve customers' perceptions of Ameren's utility service. OAG witness Brosch pointed out that Ameren Ex. 11.9 shows that Ameren is using the social media channel to promote its infrastructure investments "to meet energy needs of our customers" and "improve reliability," arguably two responsibilities the utility is required to fulfill in order to meet its statutory duties under the Act.

Describing utility activities required by law does not fall into any of the exceptions of 9-225(3). Nor has Ameren explained why these expenditures are in their customers' best interests, pursuant to 9-225(2). These expenses should be disallowed.

d. The costs for Ameren's St. Louis Cardinals radio advertisements are not recoverable in rates.

The St. Louis Cardinals radio advertisements for which Ameren seeks cost recovery included radio scripts which generally described employment opportunities and scripts designed to encourage businesses to contact Ameren about expansion plans in communities in Ameren's service territory. Ameren IB at 41.

The messages contained in these advertisements are so general in nature as to effectively constitute little other than a reminder that Ameren is in business in the area, a textbook example of goodwill advertising. The employment opportunity ads do not announce specific job openings, but merely declare that Ameren has jobs in "IT, Engineering, Customer Service, etc." – which is probably true on any given day and hardly needs to be advertised.

The same can be said of the economic development advertising, given that Ameren is the monopoly service provider not just in Illinois, but in a multi-state service territory. The ads in question were broadcast to reach the St. Louis region, and as such cannot be intended to target economic development in Illinois alone: "Ameren is a FORTUNE 500 Energy Company serving the Midwest." AIC Ex. 11.11. In fact, the ads do not mention Illinois at all and cannot be presumed to have an effect on economic development in Illinois. The Commission therefore cannot pass this expense on to Illinois ratepayers.

Again, Ameren describes these messages as "educational," Ameren IB at 42, explaining that advertising through "a viable network of radio affiliates" is an efficient use of ratepayer dollars. Ameren's assessment of radio advertising as an efficient technology to communicate its message may be true, but that says nothing about the message itself, its alleged educational value or its use to customers. Expenses for these advertisements should be disallowed as they do not fall into any of the exceptions for goodwill or promotional advertising set forth in the Act or the rules.

2. Safety Awareness and Recognition Spending

C. Recommended Operating Revenues and Expenses

1. Filing Year

2. Reconciliation Year

IV. COST OF CAPITAL AND RATE OF RETURN

A. Uncontested and Resolved Issues

1. Cost of Capital and Overall Rate of Return on Rate Base

a. Filing Year

V. Reconciliation Year

VI. RECONCILIATION

VII. REVENUE REQUIREMENT

A. Recommended Revenue Requirement

VIII. OTHER ISSUES

A. Uncontested and Resolved Issues

1. Incremental Plant Investment

IX. CONCLUSION

For all of the reasons stated above, the People of the State of Illinois respectfully request that the Commission enter an Order consistent with the recommendations in this Reply Brief and in their Initial Brief.

Respectfully submitted,

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